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BEFORE THE DEPARTMENT OF MANAGED HEALTH CARE
OF THE STATE OF CALIFORNIA

IN THE MATTER OF:

HEALTH NET OF
CALIFORNIA, INC.

**CONSENT AGREEMENT
REGARDING CONTRACTED
HOSPITAL CLAIMS PAYMENT
PRACTICES: CESSATION OF LINE
ITEM REVIEW AND THIRD PARTY
REPRICING**

THIS CONSENT AGREEMENT is entered into as of the 6th day of ~~September~~ ^{October}, 2006, by and between HEALTH NET OF CALIFORNIA, INC., a California corporation ("Health Net" or "Plan") and the CALIFORNIA DEPARTMENT OF MANAGED HEALTH CARE ("Department" or "DMHC").
The Department and Health Net agree as follows:

I. RECITALS

- A. Health Net is a full service health care service plan subject to the regulatory jurisdiction of the Department under the Knox-Keene Health Care Service Plan Act (the Act) (Health and Safety Code sections 1340 *et seq.*).
- B. The Department received complaints from hospitals contracted with Health Net about certain claims adjudication and payment practices used by Health Net. The Department investigated these complaints to determine whether the subject claims adjudication and payment

practices were consistent with Health Net's obligations under the Act.

- C. Health Net and the Department have entered into this Consent Agreement solely in order to finally and completely resolve the issues regarding Health Net's use of the subject claims adjudication and payment practices and to conclude: 1) any related Enforcement Matters (or parts thereof) that are currently open with the Department and concern the subject claims adjudication and payment practices used by HN prior to the date of this Agreement, 2) any other potential Enforcement Matters which concern the same claims adjudication and payment practices and are based on events or actions that occurred prior to the date of this Agreement. This Agreement is not made by or on behalf of any hospital contracted with Health Net and is not itself intended to limit, waive or adversely affect a contracted hospital's separate exercise of available rights and remedies pertaining to such claims or any of Health Net's defenses.
- D. This Consent Agreement is made solely for the purpose of resolving regulatory matters. It may not be used by third parties to establish or support a claim of liability in any other proceeding.

II. FINDINGS and ACKNOWLEDGEMENTS

The Department has found and, for purposes of this Consent Agreement, Health Net acknowledges as follows:

- A. In late 2001, Health Net began using a Line Item Review (LIR) process in the course of its adjudication and payment of contracted commercial hospital claims. In this context, LIR is understood to mean a pre-payment claims editing process developed by Health Net by which Health Net disallowed certain charges from the claims.

Health Net's reasons for using such pre-payment edits included Health Net's contention that some contracted hospitals were engaged in unfair billing practices. Examples of the alleged unfair billing included billing for certain health care services for which under the terms of the contract or other applicable billing standards, any charge was inappropriate or unreasonable. Health Net's contentions also included that certain billings constituted "unbundling," that is, an effort by the billing hospital to obtain a separate and/or additional payment for services that Health Net considered to be included in another, more global service for which Health Net regularly allowed payment.

- B. Also in late 2001, Health Net began using another prepayment claims editing process, known as Third Party Repricing (TPR). In this context, TPR is understood to mean a pre-payment claims editing process by which Health Net reduced the dollar value of the claims to a figure that Health Net considered to be more in line with:
 - 1) charge amounts anticipated for those services; and/or
 - 2) charge amounts allowed by the contract for those services; and/or
 - 3) amounts charged by comparable hospitals for the same or similar services.
- C. Health Net contends that it implemented the subject practices in order to protect Health Net and its enrollees from billing practices by contracted hospitals that were unfair and/or in violation of contract terms. The Department acknowledges and has considered those contentions, but this Agreement does not include or reflect any determination by the Department as to whether any of the claims affected by Health Net's practices were unfairly billed. Accordingly except as would be inconsistent with the express terms of this

Agreement, Health Net reserves all claims and defenses it may have pertaining to the affected claims and the related billing practices of the hospitals who submitted them, as well as all rights generally available to it for the processing and payment of provider claims.

- F. Health Net's unilateral implementation and use of LIR and TPR, without prior disclosure to the contracted hospitals, was a violation of Health Net's obligations under the Act, including section 1300.71(o) of the California Code of Regulations.
- G. The Department has considered Health Net's actions in mitigation of the violation, including Health Net's cooperation with the Department's investigation and its voluntarily cessation of the offending practices.

III. CORRECTIVE ACTIONS TO BE IMPLEMENTED BY HEALTH NET

- A. CESSATION OF LINE ITEM REVIEW and THIRD PARTY REPRICING: Health Net agrees and confirms it has ceased using LIR and TPR for contracted hospital claims, and agrees not to use any pre-payment claims editing practices or processes by which it edits or reduces contracted hospital claims, unless the practice is consistent with and disclosed as required by 28 CCR 1300.71(o), and is not otherwise in violation of the health plan's obligations under the Act and the related regulations.
- B. READJUDICATION OF AFFECTED CLAIMS: For the claims of any hospital contracted with Health Net that have not previously been resolved with Health Net, by settlement, arbitration or judgment, and whose claims were affected by Health Net's use of LIR and/or TPR, Health Net agrees to accept such hospital's request for readjudication of such claims with dates of service on or after

January 1, 2004 that the hospital contends were improperly paid as a result of Health Net's use of LIR or TPR. Health Net shall readjudicate those disputed claims without the use of LIR, TPR or any other claims payment practices or processes except those that are consistent with the conditions or standards described in the preceding section of this Agreement, as those standards were in effect at the time of the claims' original submission. Health Net will pay any amount thereby found due on a claim to whatever extent that amount exceeds Health Net's previous payment on the claim. Recognizing that Health Net's readjudication of claims is in the nature of a settlement of contested matters, this Agreement does not require a separate payment of interest on the amounts determined to be due.

C. DEADLINE FOR HOSPITALS TO REQUEST

READJUDICATION OF CLAIMS: Contracted hospitals that have claims still eligible for readjudication pursuant to the above terms must submit their requests for such readjudication to Health Net. To the extent reasonably possible, a request should include the following identification data for each claim: 1) the patient's name; 2) the patient's Health Net identification number; 3) the Health Net claim number; 4) the date of service; 5) the amount of billed charges. If it is not reasonably possible for a hospital to include all of that data, Health Net agrees it will make all reasonable and good faith efforts to identify a hospital's claims that remain eligible for readjudication. Hospital shall also provide, together with the disputed claim information, the name, address and telephone number of a contact person at the hospital who can resolve and communicate questions that may arise as to the claims. Health Net's obligation to

readjudicate such claims includes the obligation to readjudicate them based on all records previously in its possession and without requiring the hospital to re-supply supporting documentation. A request for readjudication shall be considered timely if submitted to Health Net within any of the following times: (a) the time allowed by contract terms (not inconsistent with statutory and regulatory requirements) for submitting, appealing and disputing the particular claim; or (b) 180 calendar days from the date that Health Net posts on its website (in a manner approved by the Department) the notice to providers of the opportunity to request such readjudication. A provider submitting such a request for readjudication to Health Net can document timely submission by either a postmarked copy or other commonly accepted proof of mailing or other transmission.

- D. **DELAY IN PAYMENT:** If Health Net fails to timely readjudicate and pay a claim within the time period specified under the Act for the processing of new claims, with that time period to run from the date Health Net receives the hospital's request for readjudication, Health Net agrees to pay interest in accordance with applicable statutes and regulations for the time beyond the period allowed for readjudication under this Agreement.
- E. **NOTICE OF OPPORTUNITY FOR READJUDICATION:** Health Net, within 20 calendar days of executing this agreement, will submit to the Department for approval, its proposed clear and prominent notice to contracted hospitals regarding this Agreement and the contracted hospitals' opportunity to request readjudication of claims. Within ten calendar days of such submission, the Department and Health Net will use their respective best efforts to reach a consensus on the form and content of the notice. If the

Department approves the notice during such period, within five business days of the Department's approval, Health Net shall prominently post this notice on its provider website accessible to contracted hospitals and maintain it there unchanged, except as may be approved by the Department, for the duration of the 180-day period referred to in Paragraph C of this Section III. If the Department does not approve the notice during the time period allowed for the parties to reach consensus on the notice, then within five business days after the end of such period, Health Net shall prominently post the Consent Agreement on its provider website accessible to contracted hospitals and maintain it there unchanged, except as may be approved by the Department, for the duration of the 180-day period referred to in Paragraph C of this Section III.

F. DISPUTES REGARDING READJUDICATED CLAIMS.

Health Net agrees that, following readjudication of a claim eligible for readjudication under this Agreement, a hospital that disputes the result of the readjudication as being inconsistent with the standards in this Agreement may then also utilize Health Net's internal dispute resolution process (the process required by Health and Safety Code section 1367(h)) to contest the readjudication. The time period allowed for initiating that dispute process for a readjudicated claim will be 365 days from the date that Health Net notified the hospital of the result of readjudication. Thereafter, to the extent the hospital still disputes whether the result of readjudication is inconsistent with the standards in this Agreement, the hospital may commence or continue with any other remedy available to it under its contract to address such dispute, and for that purpose only Health Net agrees

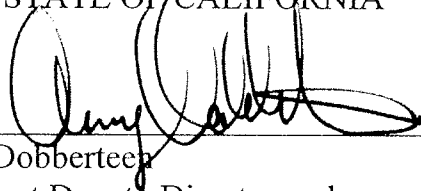
that any applicable statute of limitations period is suspended for such dispute during the period from the effective date of this Agreement until the date Health Net informs the hospital of the result of Health Net's readjudication of the claim pursuant to section III.B. of this Agreement.

G. REQUIRED QUARTERLY REPORTS: Until all of the above-described claims submission periods have expired and all submitted claims have been re-processed, Health Net will provide quarterly reports to the Department that cumulatively list: 1) the name, address, phone number and contact person for each hospital that, since the date of this Agreement, requested readjudication of claims previously affected by LIR and/or TPR; 2) the Health Net claim number of each claim for which a given hospital requested readjudication; 3) the outcome of Health Net's readjudication for each claim, including the dollar amount of any additional payment, or, if no additional payment was made, a concise explanation of the readjudication result.

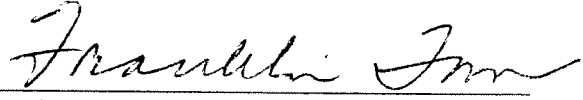
H. PENALTY: Health Net agrees to pay one hundred thousand dollars (\$100,000.00) to the Department.

IN WITNESS WHEREOF, the parties hereby execute this Consent Agreement by the signatures of their respective duly authorized officials.

DEPARTMENT OF MANAGED
HEALTH CARE
of the STATE OF CALIFORNIA

By: 
Amy Dobberteen
Assistant Deputy Director and
Chief of Enforcement

HEALTH NET OF CALIFORNIA, INC.,
a California corporation

By: 
Franklin Tom
Vice President, Legal